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AICPA *Washington Report*

November 5, 1984, Volume XIII, Issue 37

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FEDERAL HOME LOAN BANK BOARD

A proposal concerning required accounting for certain real estate activities for regulatory accounting purposes and for financial statements prepared in accordance with GAAP was recently issued by the FHLBB (see the 10/30/84 Fed. Reg., pp. 43557-59). According to the Board, the misclassification of certain real estate transactions has camouflaged the actual economic conditions of some institutions and has created difficulty in the comparison of financial statements. The Board and the profession have found that the accounting for these transactions has varied in practice. Therefore, the Board has proposed a statement of accounting policy that will bring consistencies to the accounting practices used. According to the FHLBB, the statement does not differ significantly in substance from the 11/83 AICPA notice, but would formally adopt the criteria stated in that notice for institutions reporting under either RAP or GAAP in financial statements under the Board's jurisdiction. Comments are requested by 12/21/84. The Board intends to use 10/30/84 as the effective date of the final rule. For further information contact Alan Leach at 202/377-6837.

HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF

Portions of HUD's Community Development Block Grants regulations would be amended under a recently proposed rule from the Department (see the 10/31/84 Fed. Reg., pp. 43852-903). The Department proposes to amend portions of Subpart J to minimize opportunities for fraud and mismanagement. Inasmuch as part of Subpart J is contained in OMB Circular A-102, it is noted that OMB and HUD are reviewing the Circular for possible revisions and restructuring. The desired result will be a uniform set of grant terms. Specific rule amendments being considered include: Applicability of OMB Circulars and Agreements with Subrecipients. Comments are requested by 12/31/84. For further information contact James Broughman at 202/755-9267.

TREASURY, DEPARTMENT OF

Rules governing changes in accounting methods (Rev. Proc. 80-51) have been modified and superceded by Rev. Proc. 84-74 (to be published in Internal Revenue Bulletin 1984-44). Generally, a taxpayer must obtain permission from the IRS to change accounting methods. The release provides the procedures for obtaining this permission and describes many of the substantive requirements for a change in methods. Specific information required in Form 3115, Application for Change in Accounting Method, is explained, and examples are provided. Terms, conditions, adjustment computations, and other useful information are provided. Inquiries concerning this revenue procedure should be addressed to Commissioner of Internal Revenue, Attention: CC:C:C:1, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

Proposed rules concerning consolidated returns will be the subject of a 12/10/84 public hearing, according to a recent IRS announcement. The proposed regulations reflect changes in applicable law made by various Acts and also make technical changes in existing regulations (see the 7/31/84 Fed. Reg., pp. 30528-39). The regulations, according to the IRS, "would provide guidance to affiliated groups that file consolidated returns so that the tax liability of any group may be clearly reflected". The public hearing will be held at 10:00 a.m. in the IRS Auditorium, 7th Floor, 7400 Corridor, Internal Revenue Bldg., 1111 Constitution Ave., N.W., Washington, D.C. For further information contact B. Faye Easley at 202/566-3935.

"We are hurtling towards deregulation of the financial services industry, but in a haphazard and potentially dangerous manner", according to a recent address by Treasury Secretary Donald T. Regan before the Detroit Economic Club. According to Secretary Regan, the Glass-Steagall Act is breaking down; non-bank banks are proliferating; real estate is being sold by investment banking firms; brokerage firms are selling annuities; and, you can get "comprehensive financial planning" at a department store. He went on to say, "Market forces are tearing at the existing out-dated framework while the industry and most importantly, consumers still wait for government to get out of the way and let all participants compete for your business." Turning to the subject of the Treasury's study on comprehensive tax reform, Sec. Regan said that he didn't yet know what the Treasury will recommend to the President in December, but that the Department will be guided by the President's directives in the State of the Union Address earlier this year, which were "that a reformed tax system be fairer, simpler, and incentive-oriented." Sec. Regan also stated that the tax reform package is not being developed "with an eye on any specific revenue amount", and that it will be neutral in that it would raise the same revenues as the tax system in place now raises.

In a related matter, individual income tax indexing, under the Economic Recovery Tax Act of 1981, will save U.S. taxpayers more than \$9 billion in taxes in 1985 according to a statement by Sec. Regan released on 10/25/84. The personal exemption and the zero bracket amount, Sec. Regan stated, will be increased and all marginal tax rate brackets will be adjusted approximately 4.1 percent for calendar year 1985. The Treasury Department, according to Sec. Regan, also calculates that 80 percent of the tax savings will benefit taxpayers earning less than \$50,000 a year: "Since tax brackets are narrower at low and moderate-income levels, low and moderate-income taxpayers benefit the most from indexing. They are the ones who have been pushed into higher tax brackets without indexing." The Treasury statement continued to say that the tax savings in 1985 for a medium-income family of four (\$30,120 in 1984) will be \$84. Assuming an inflation rate of 4 percent over the next few years, the savings calculated by the Treasury Department for this same medium-income family would be \$690 in 1989 and a total of \$1861 for the years 1985 through 1989.

Temporary regulations amending the rules for registration of tax shelters under the Tax Reform Act of 1984 have recently been issued by the IRS (see the 10/31/84 Fed. Reg., pp. 43640-47). The regulations generally suspend the registration requirements for some investments and exempt certain other investments from those requirements. Tax shelter organizers are not initially required to register investments marketed as investments that produce net income and do not provide net tax benefits to the investors. However, if the investment produces a loss or other tax benefit, the shelter must then be registered and registration numbers provided to investors. In order to be eligible for the suspension, one of the conditions an organizer must meet is to provide investors with a written statement that the investment is expected to produce net income and not to provide net tax benefits. This suspension of the registration requirements is not available for all investments that project income. The regulations also provide that certain tangible personal property used for personal or certain business purposes is not an investment in a tax shelter. Similar rules apply to the performance of services. According to the IRS, tax shelter organizers will not be penalized for failing to register their tax shelters if the shelters are registered by 11/5/84. These temporary regulations, also issued as proposed regulations, apply to tax shelters sold to investors after 8/31/84 (see the 10/31/84 Fed. Reg., pp. 43714-15). Comments are requested by 12/31/84. For further information contact Cynthia L. Clark at 202/566-3828.

SPECIAL: SMALL BUSINESSES TO BENEFIT FROM PROCUREMENT BILL

Aid in alleviating "spare parts abuses" in the Department of Defense and increased opportunities for small businesses to capture a greater share of the Federal procurement market will result from the President's signing into law the "Small Business and Federal Procurement Competition Enhancement Act of 1984" on 10/30/84, according to a recent news release from Senate Small Business Committee Chairman Sen. Lowell Weicker, Jr. (R-CT). This new law, according to Sen. Weicker, makes reforms in several specific areas of government procurement. First, it requires contracting agencies to consider the use and procurement of future, or "downstream" operations of a contract (spare parts, maintenance, etc.) during the planning and production processes in order to prevent waste and unnecessary expense when such operations are needed. Further, the law encourages procuring agencies to make purchases in the quantity that will likely result in the best prices. The law also mandates the enhancement of the system of public notices of government competitions that are currently being undertaken or planned for the future through the use of the Commerce Business Daily and other publications, so that a business possesses all material necessary on which to make a sound decision on whether to enter a competition or not. A new system for notifying prospective contractors of changes in procurement rules and regulations and an opportunity for public comment are also required under the law.

For additional information, please contact Stephanie McCarthy, Gina Rosasco, or Nick Nichols at 202/872-8190.

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